

# Utah's State and Local Sales and Use System

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Prepared for the Revenue and Taxation Interim  
Committee

June 18, 2014

# Overview

Overview

Sales and use taxes

- Base
- Rates

Utah's sales and use tax burden

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# Overview

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# Why Does Tax Policy Matter?

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Sound tax policy is concerned with how taxes:

- Are designed and administered
- Affect the taxpayer
- Affect the economy

Affects every citizen of Utah

Provides revenue for state and local public services

# Elements of an Optimum Tax System

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## Reliable

- Sufficient
- Stable
- Certain

## Equitable

- Vertical Equity
- Horizontal Equity

## Simple

- For taxpayers to pay
- For tax collectors to collect

## Responsive to interstate and international competition

## Economically neutral

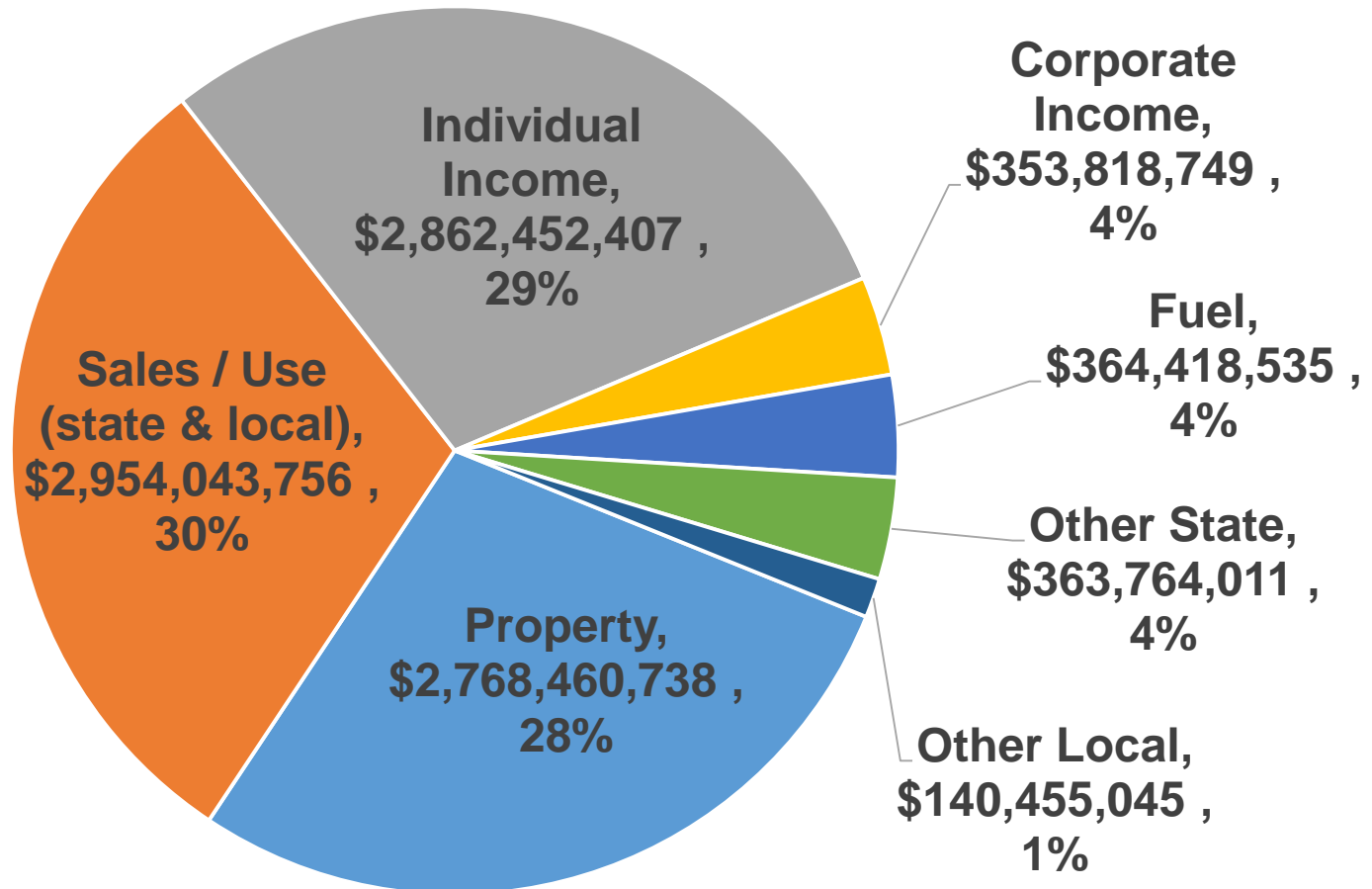
## Accountable and transparent

# Utah's Three Major State and Local Taxes:

## Income, Property, and Sales & Use Tax Revenues

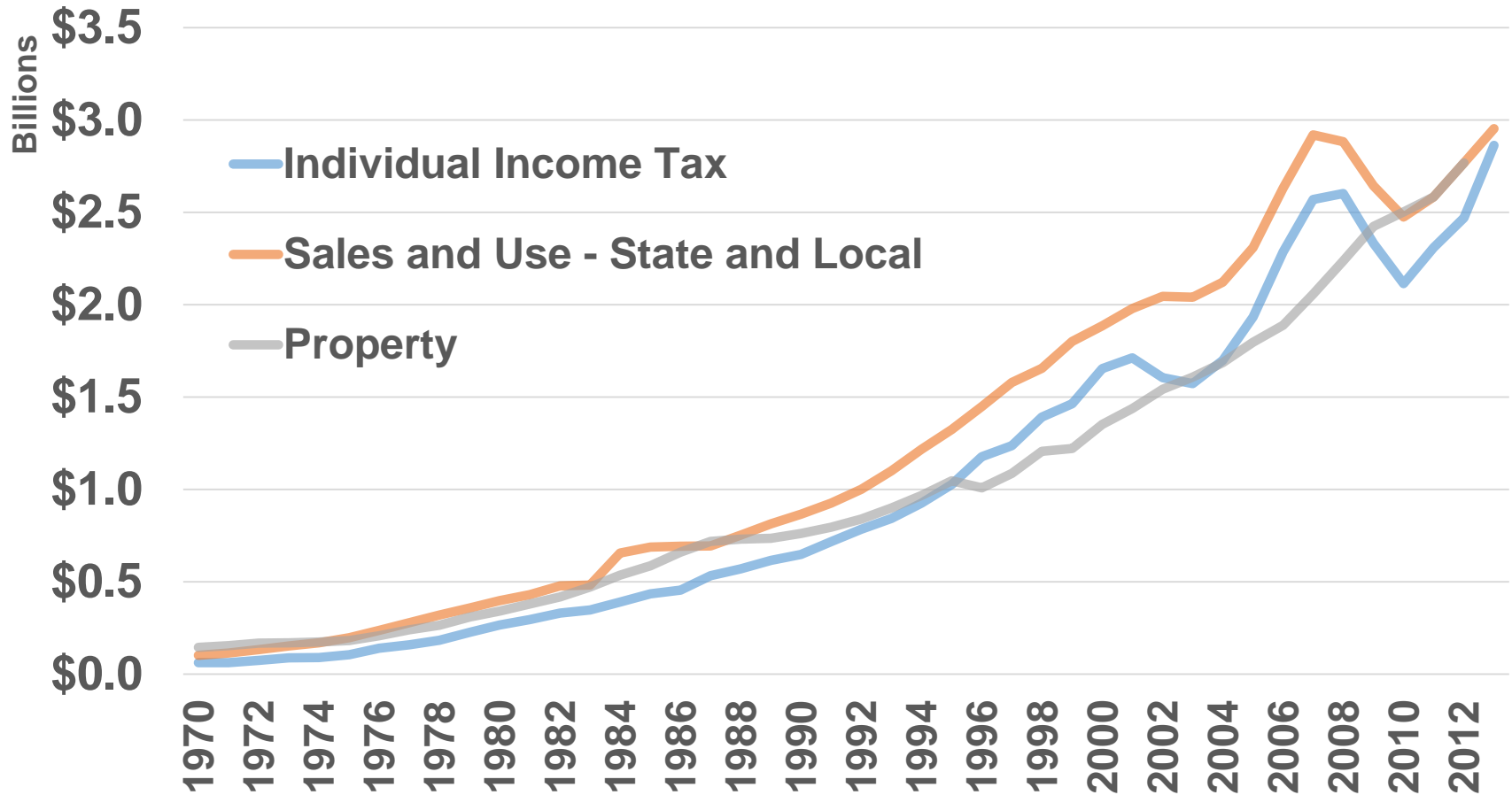
### FY 2013

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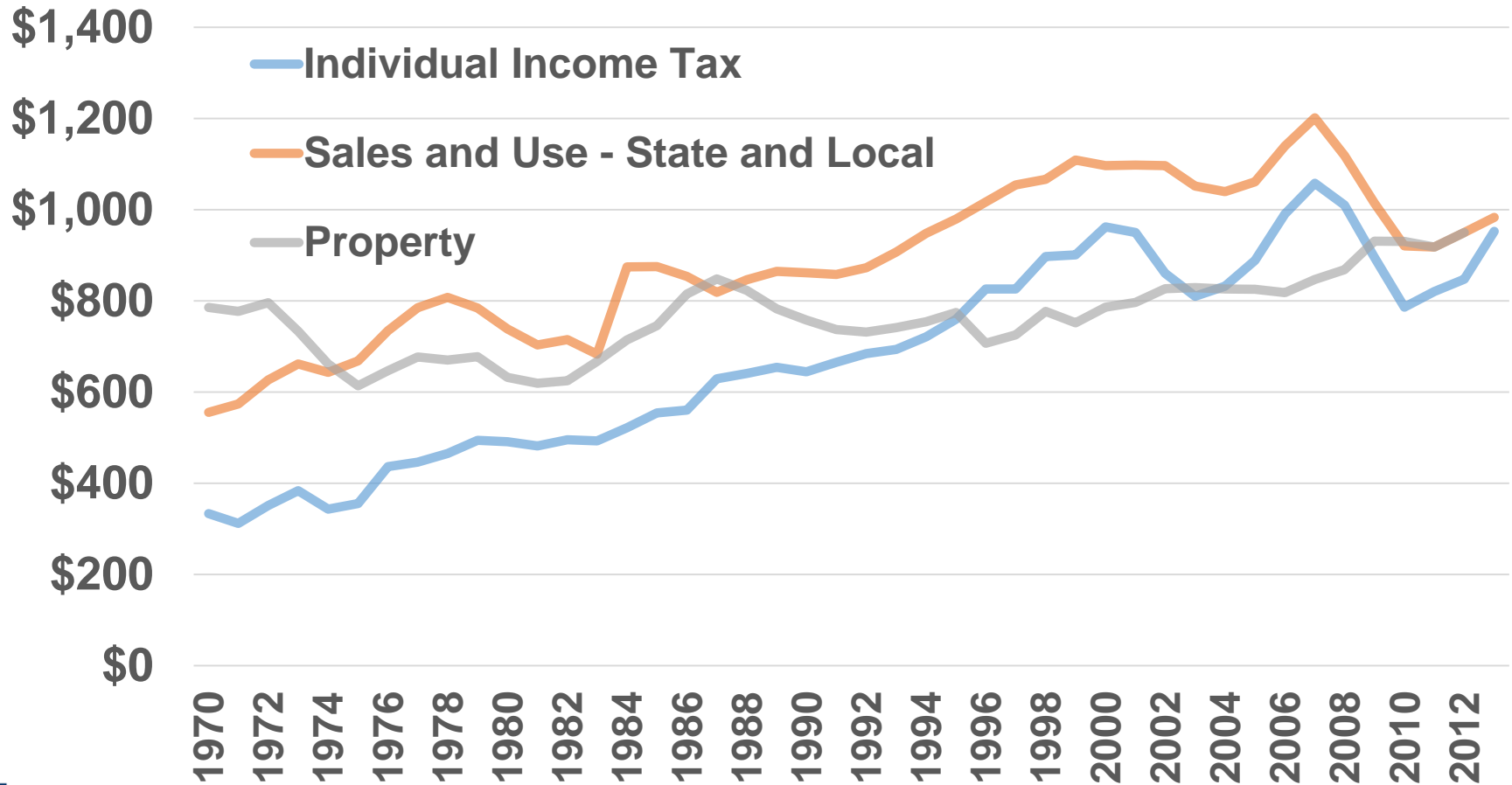


# State and Local Sales & Use, Individual Income, and Property Tax Revenues

## FY 1970 to FY 2013

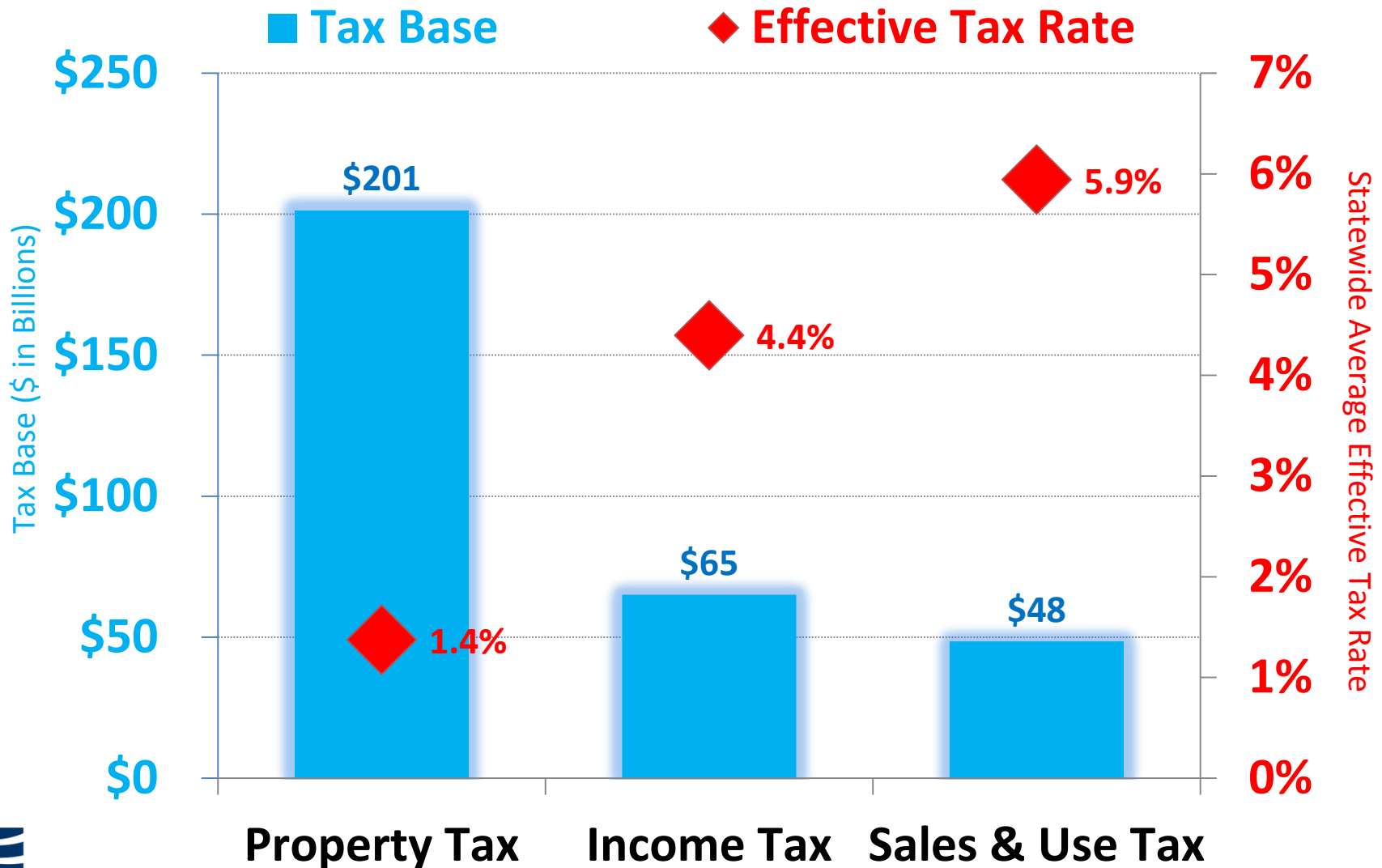


# Real Per Capita State and Local Sales & Use, Individual Income, and Property Tax Revenues FY 1970 to FY 2013



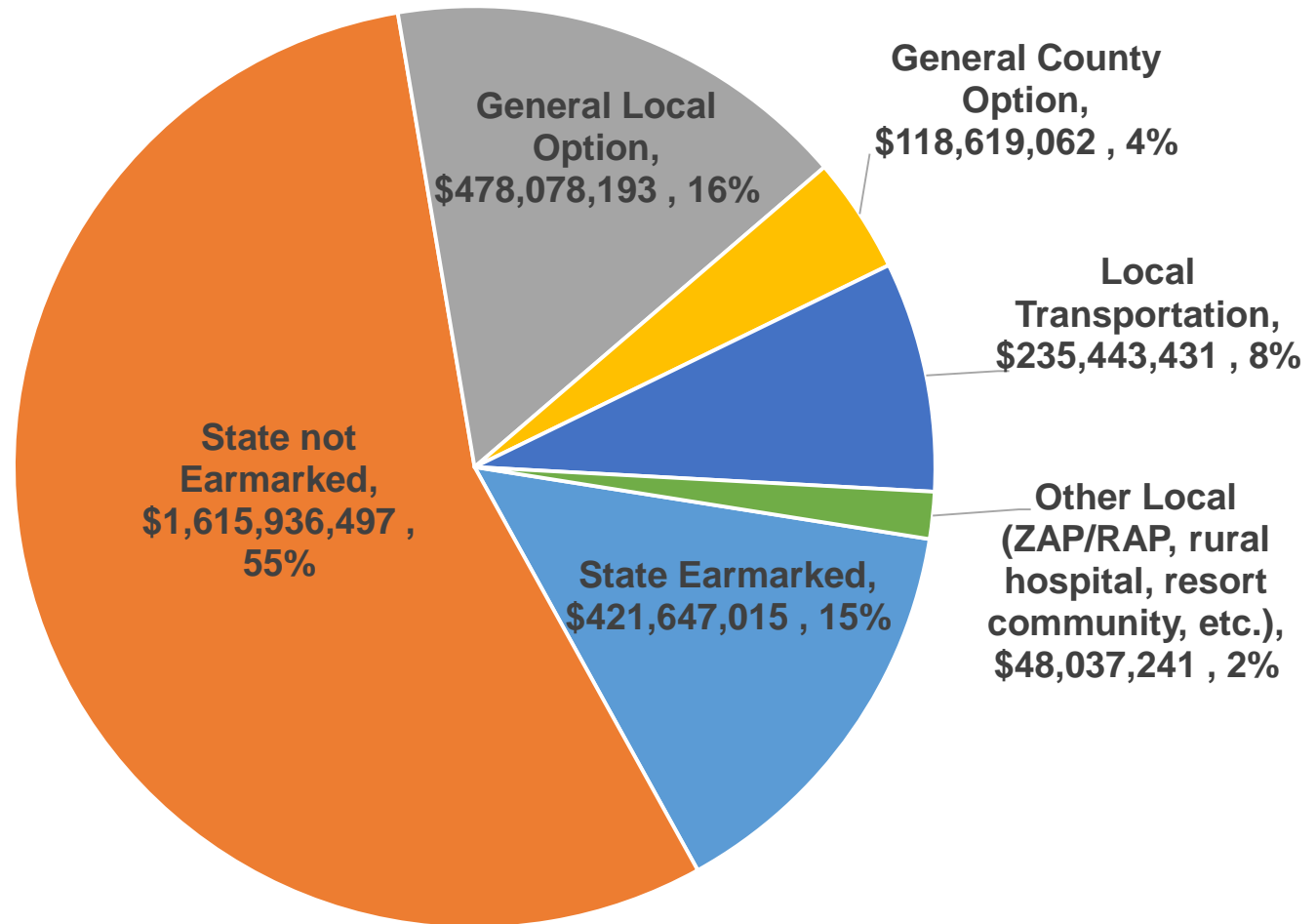


# Utah Tax Base & Effective Tax Rates



# Sales and Use Tax Revenue - Where Does the Money Go? FY 2013

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# **Sales & Use Tax Base**

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# The Utah Sales and Use Tax Base: What Do We Tax?

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## Key transactions that are subject to tax include:

- Retail sales of tangible personal property
- Sales of certain telecommunication services or utility services (reduced rate may apply)
- Sales of food (reduced rate may apply)
- Certain admissions, such as movie tickets
- Certain services, such as a car wash when the purchaser doesn't perform the labor, repairs of tangible personal property, or dry cleaning
- Certain hotel or motel charges
- Products transferred electronically such as computer software
- "Use tax"

# The Utah Sales and Use Tax: What Don't We Tax?

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## Exemptions

- 80 plus exemptions in statute
- Estimated state revenue impact \$640 Million

## Exclusions

- Professional services
- Health care services
- Personal care services

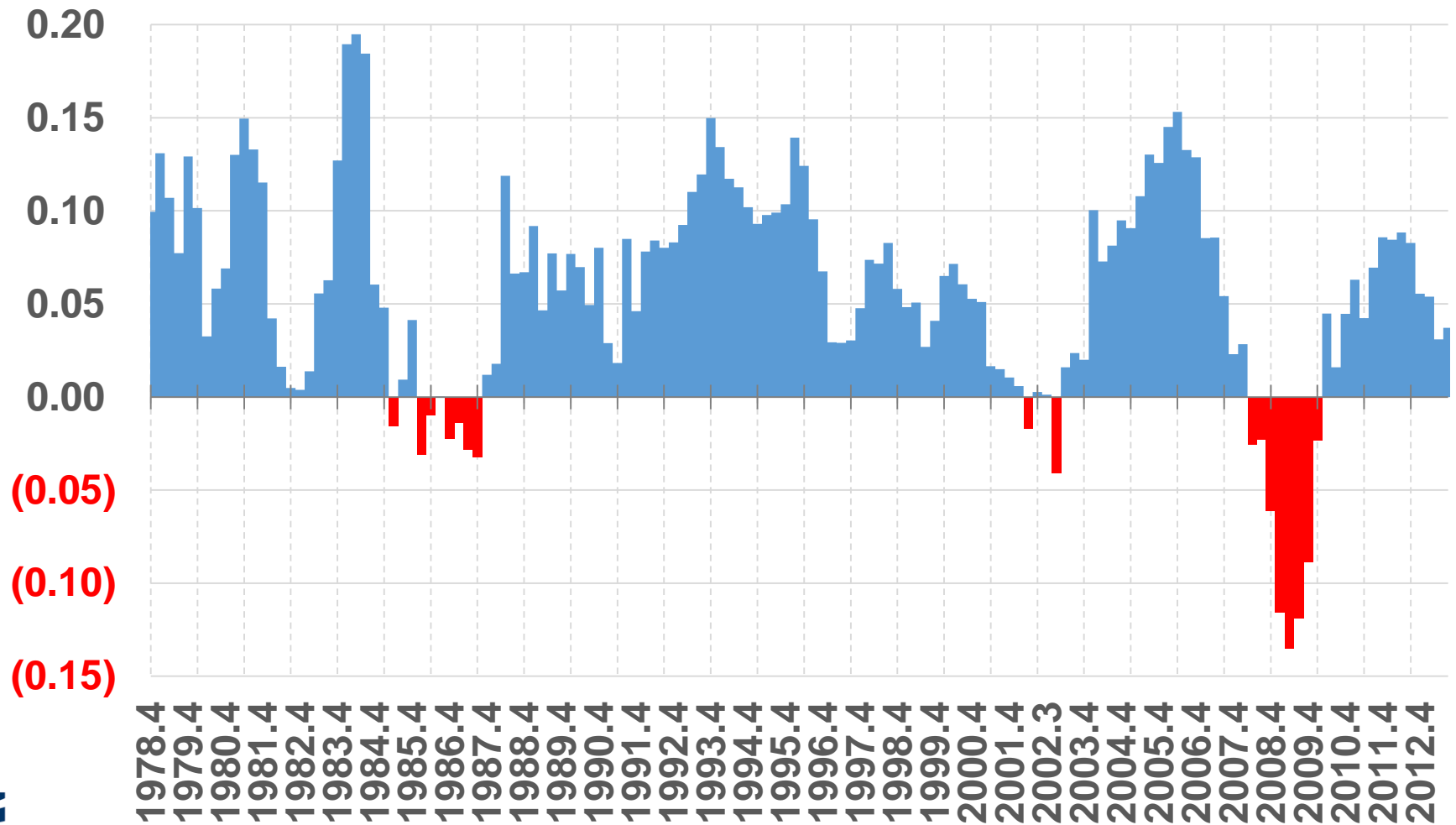
# The Utah Sales and Use Tax Base: What Don't We Tax?

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## Examples of exemptions and their estimated fiscal impact:

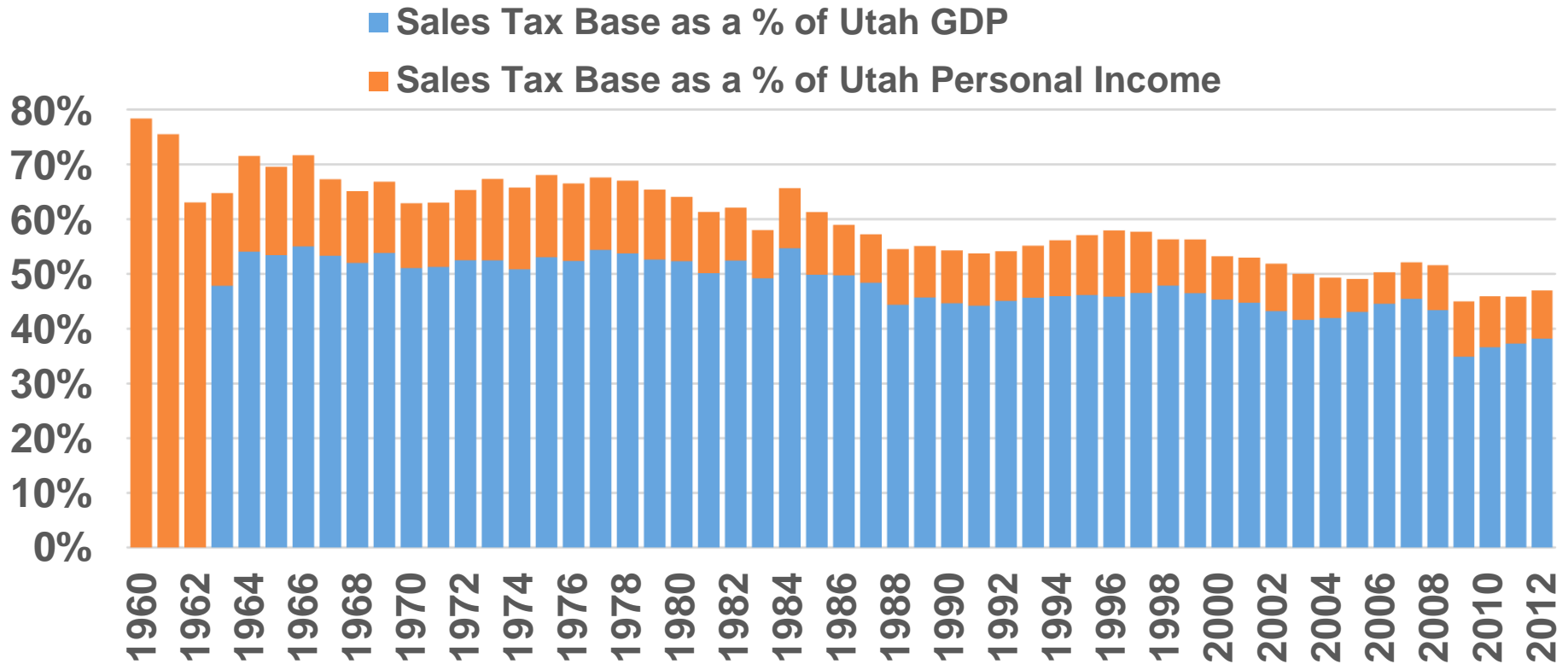
- Motor, special, and aviation fuels (\$277 M)
- Manufacturing machinery & equipment (\$80 M)
- Prescription drugs (\$59 M)
- State and local government purchases (\$41 M)
- Tangible personal property primarily used in farming (\$39 M)
- Sales of hay (\$10 M)

# Year-Over Percent Change in Utah's Sales & Use Tax Base FY 1978Q4 to FY 2013Q3



# Sales & Use Tax Base

## Gross Taxable Sales as a % of GDP and Personal Income

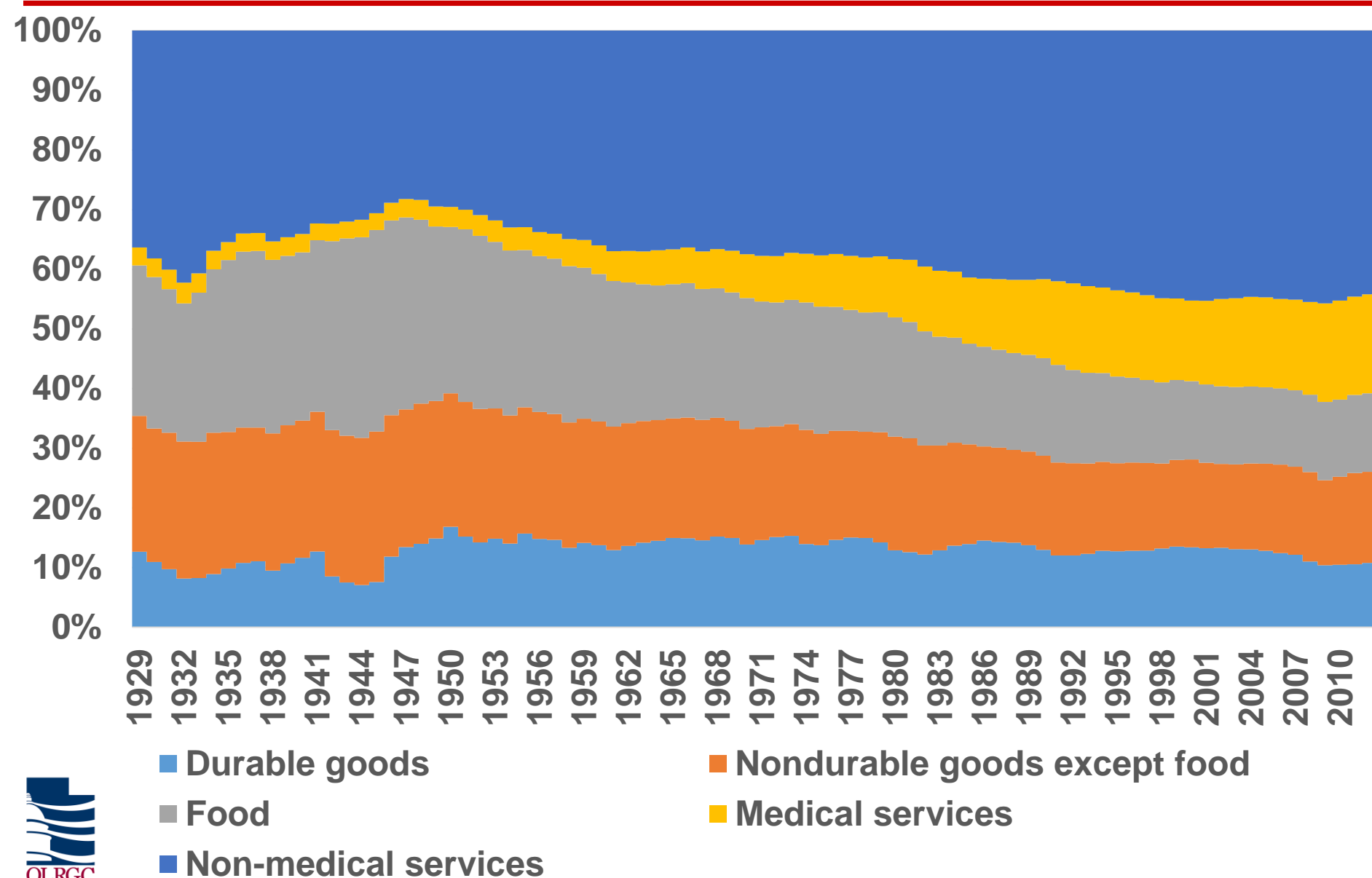


Over the long term, the sales and use tax base is gradually declining relative to the economy as a whole.



# US Personal Consumption Expenditures

## 1929-2012



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# **Sales & Use Tax Rates**

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# State and Local Option Sales and Use Tax Rates

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Rate on transactions equals sum of:

- State tax rate
- Local tax rates where transaction occurs

The state tax rate depends on what is being taxed

- General state tax rate: 4.70%
- Residential fuels tax rate: 2.00%
- Food and food ingredients tax rate: 1.75%

# Local Option Sales and Use Tax Rates

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Some used for general fund purposes

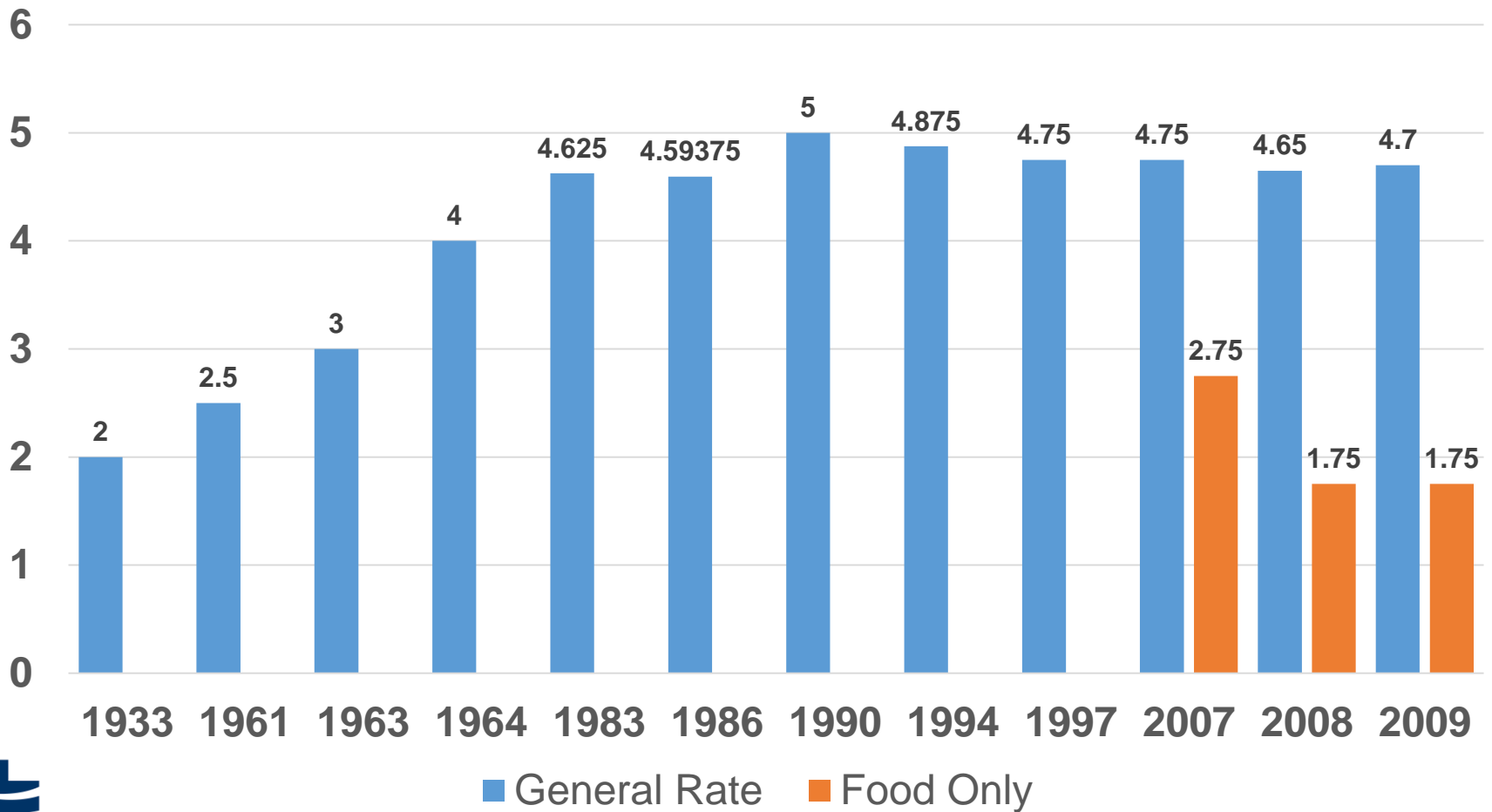
Some only used for purposes specified in statute

- Public transit, roads, zoos, parks, etc. (0.10% to 1.10%)

Some only imposed on certain transactions

- Hotel tax on accommodations (up to 4.25%)
- Restaurant food (1.00%)

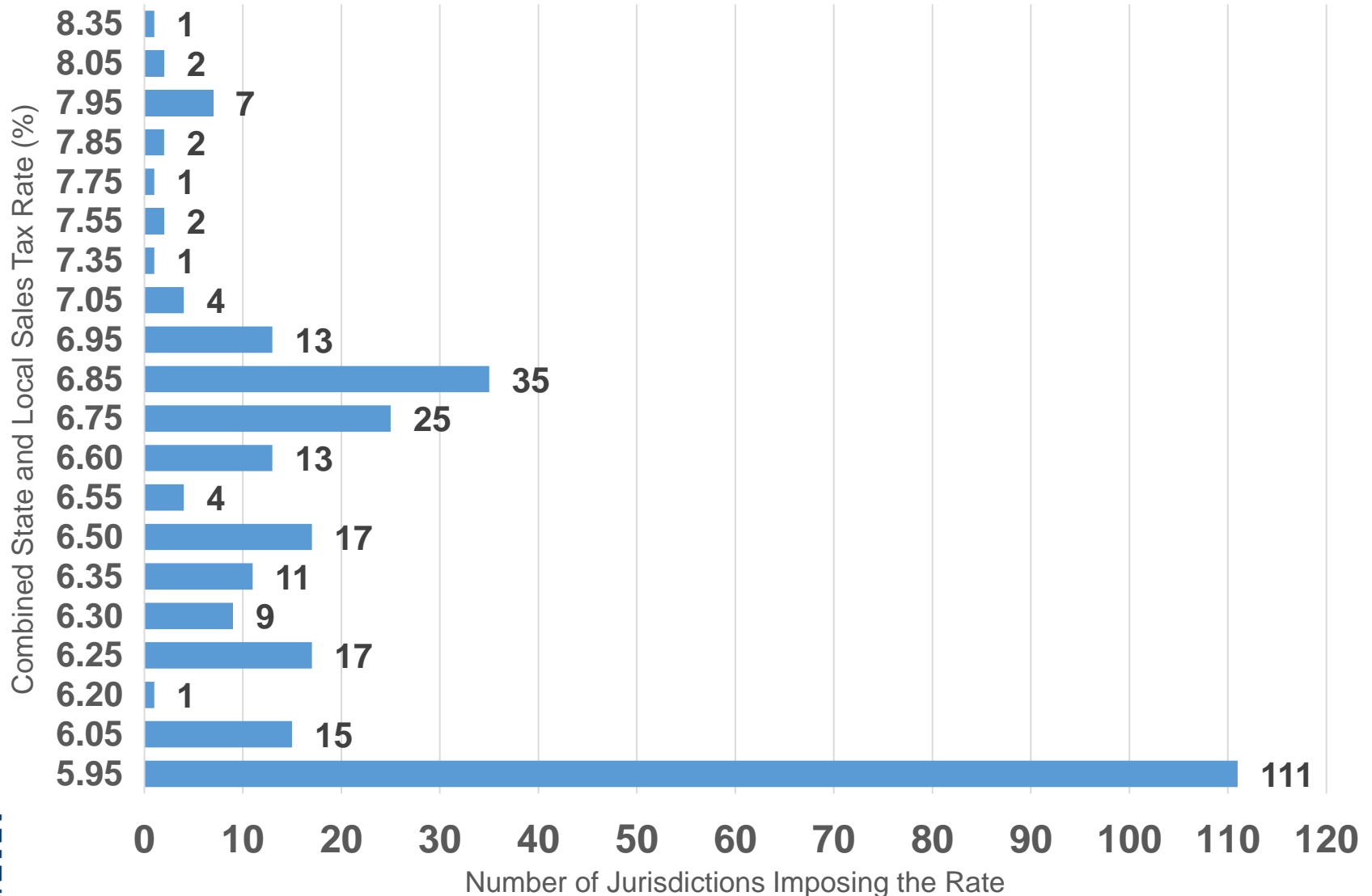
# State Sales and Use Tax Rate



# Combined State and Local Option Sales and Use Tax Rates

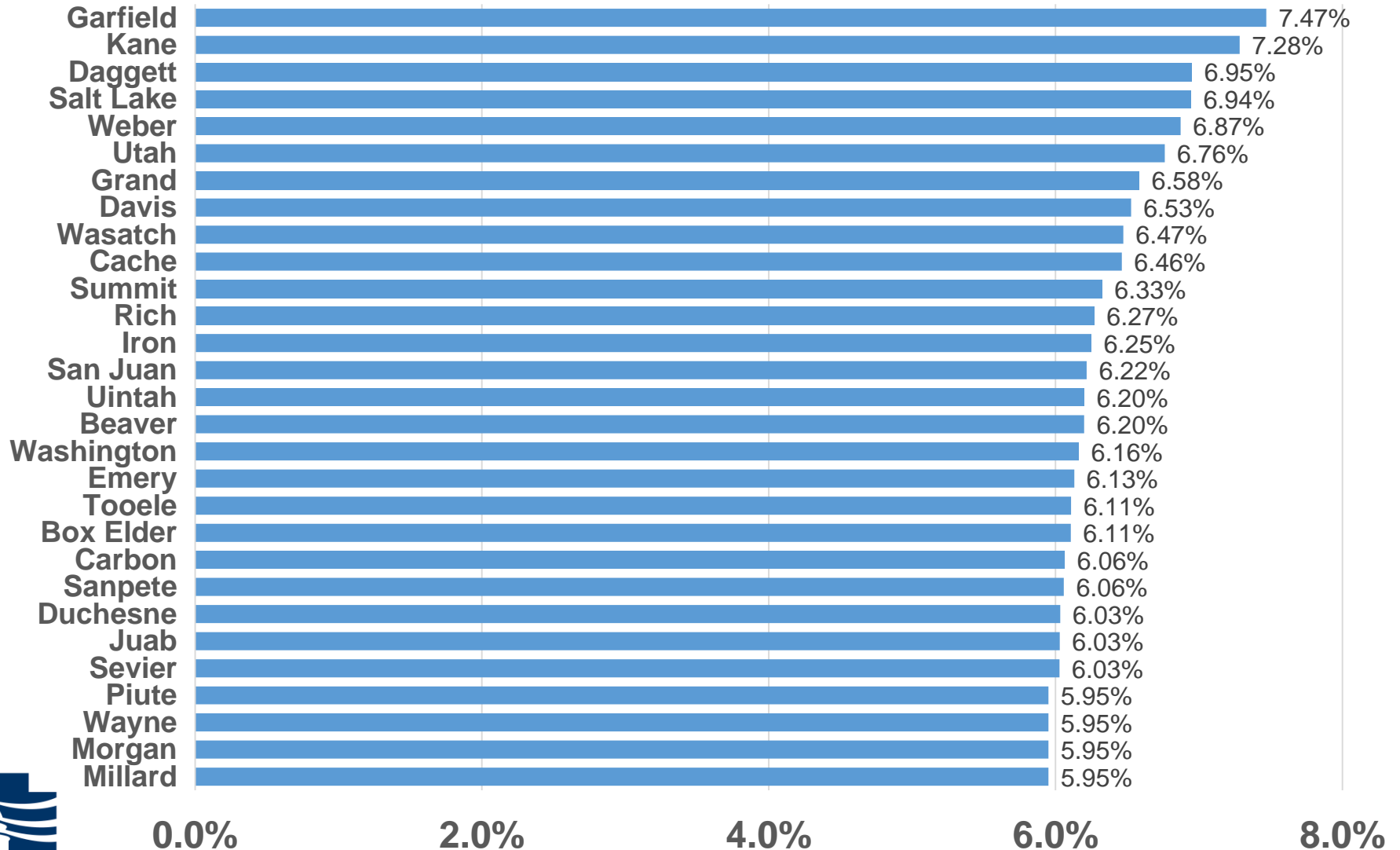
## Number of Jurisdictions by Total Sales and Use Tax Rates

Number of Jurisdictions = 291



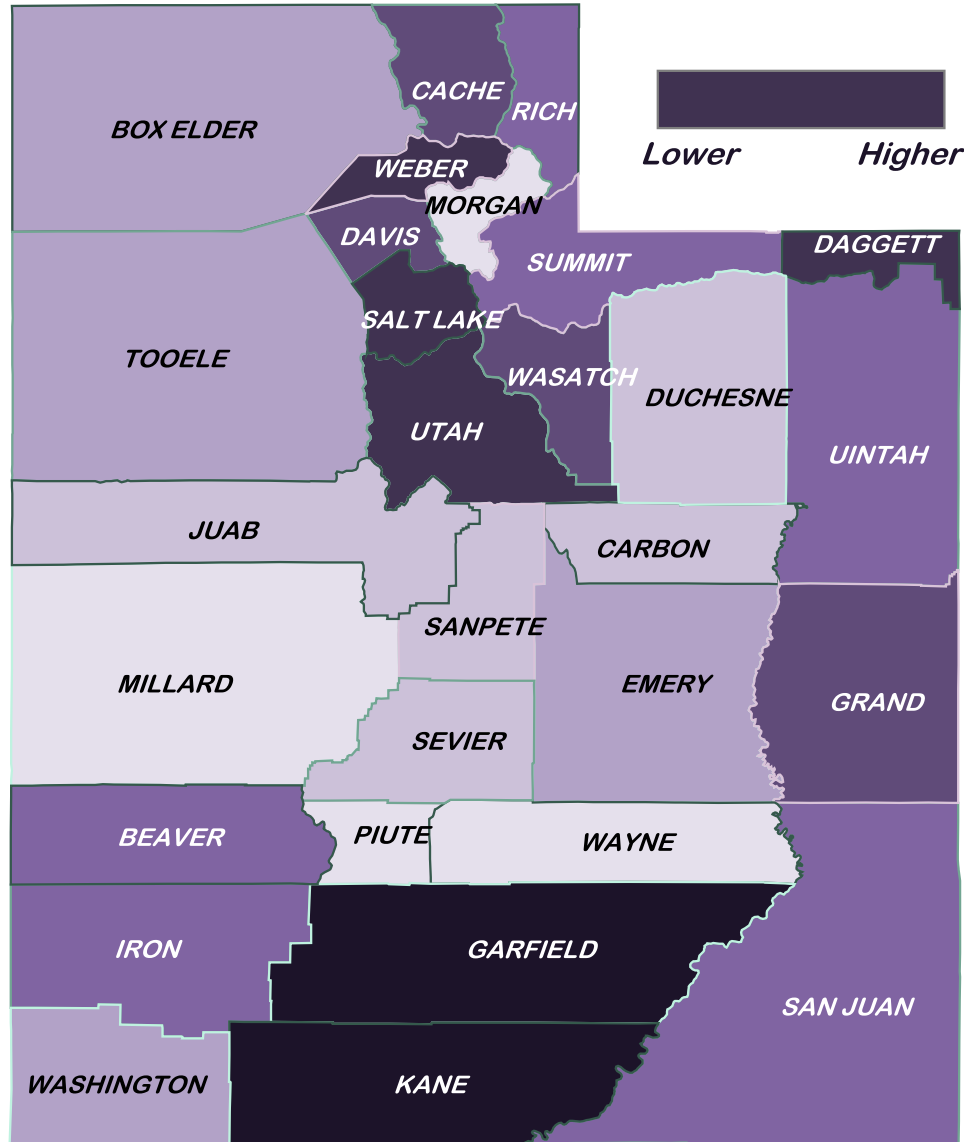
# Average Sales and Use Tax Rate by County

## April 1, 2014



# Average Sales and Use Tax Rate by County

## April 1, 2014

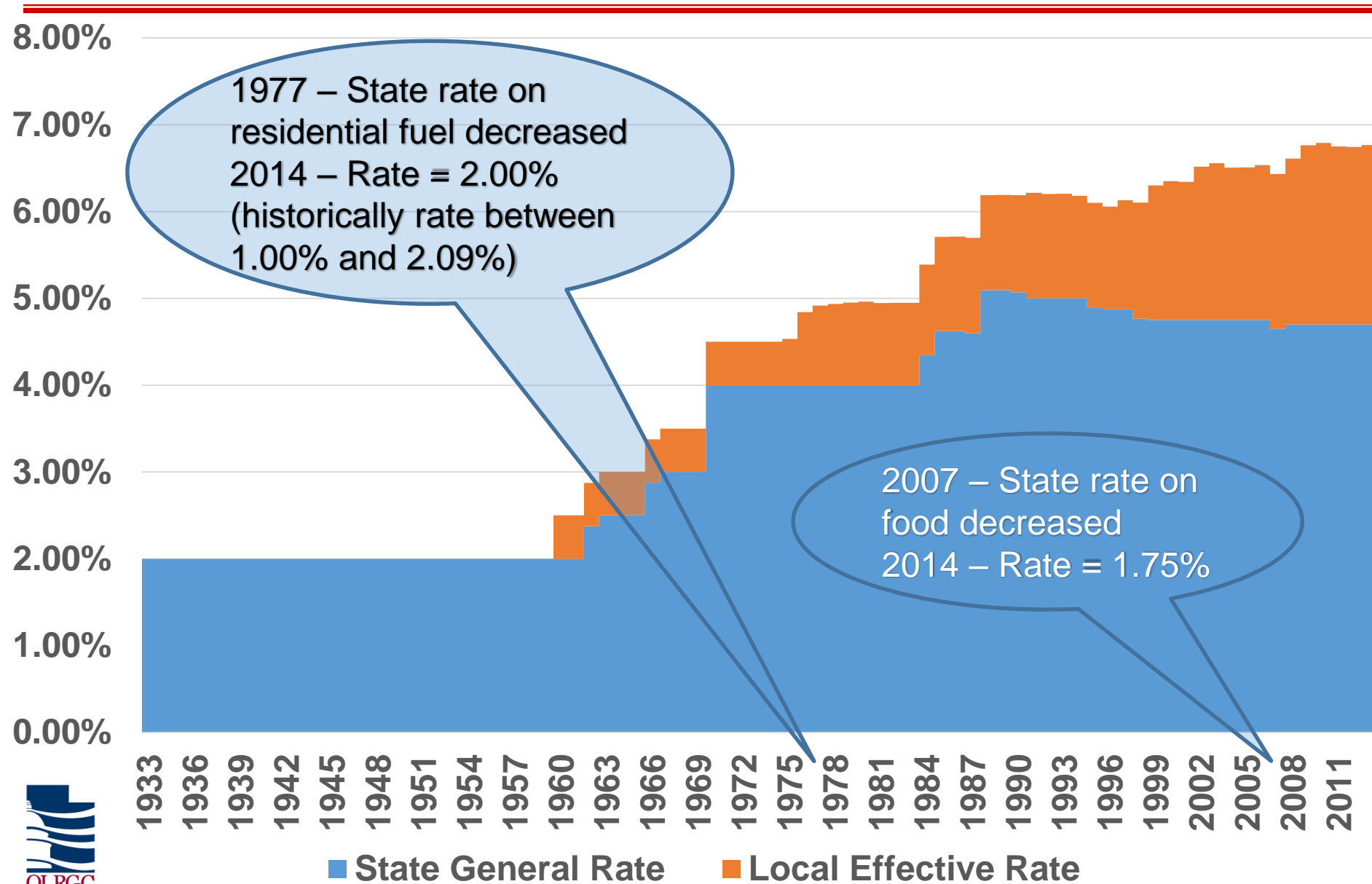


**Source: State  
Tax Commission  
rate tables**  
(<http://tax.utah.gov/sales/rates>)



# State and Local Sales Tax Rates

## 1933-2013



# Why Does the Sales and Use Tax Matter?

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Most significant source of revenue to state government and state higher education system

Significant source of revenue to local governments, Utah Transit Authority, and other public transit districts

Taxes consumption

Politically popular

May be “exported”

Impacts zoning decisions

# Major Sales and Use Tax Issues

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Taxation of remote sales

Transportation funding

State sales and use tax earmarking

Creation of new exemptions

Taxes on food

Local option sales and use taxes

Compliance with Streamlined Sales and Use Tax Agreement

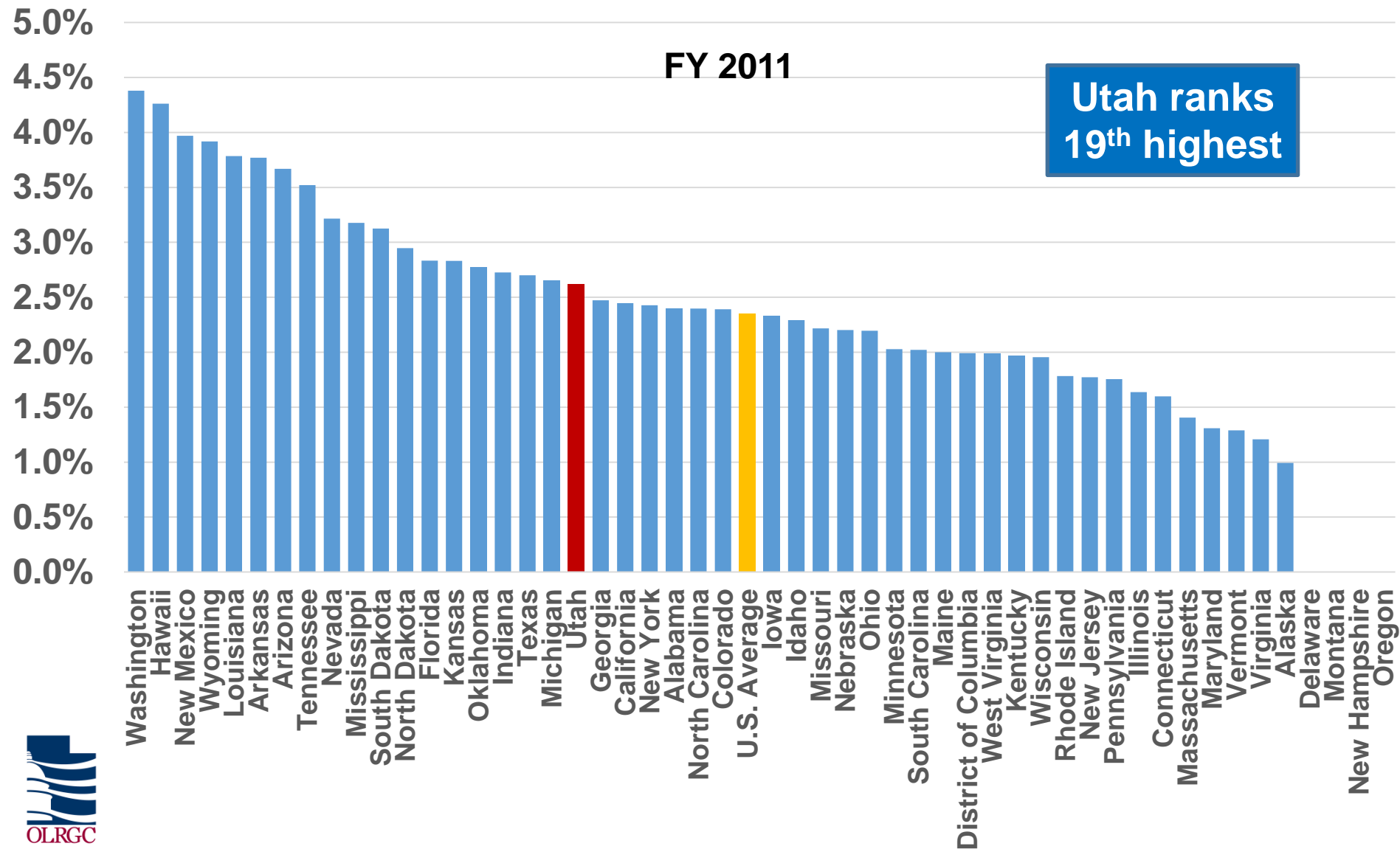
Taxation of services

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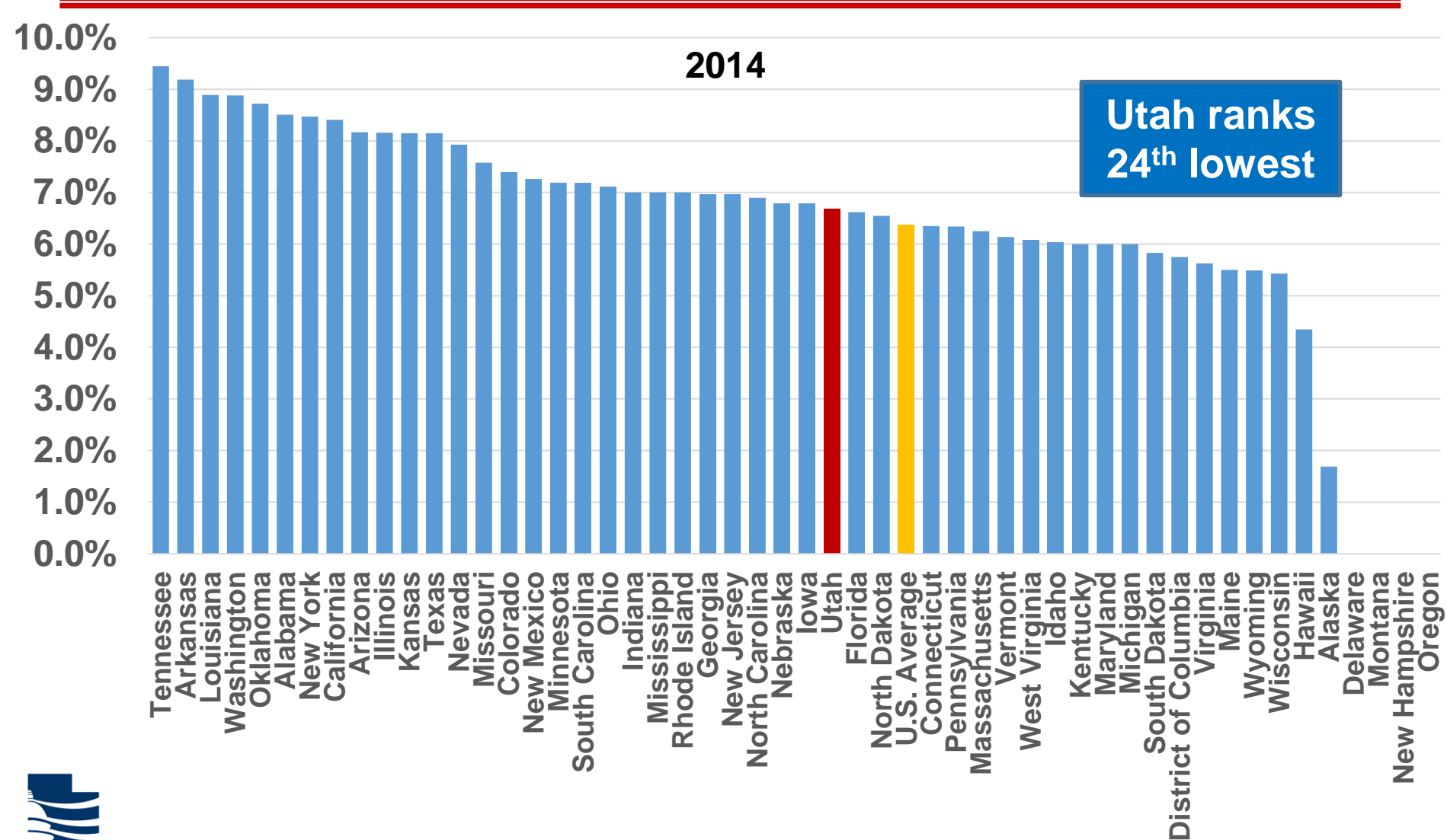
# **Utah's Sales and Use Tax Burden: How Does It Compare?**

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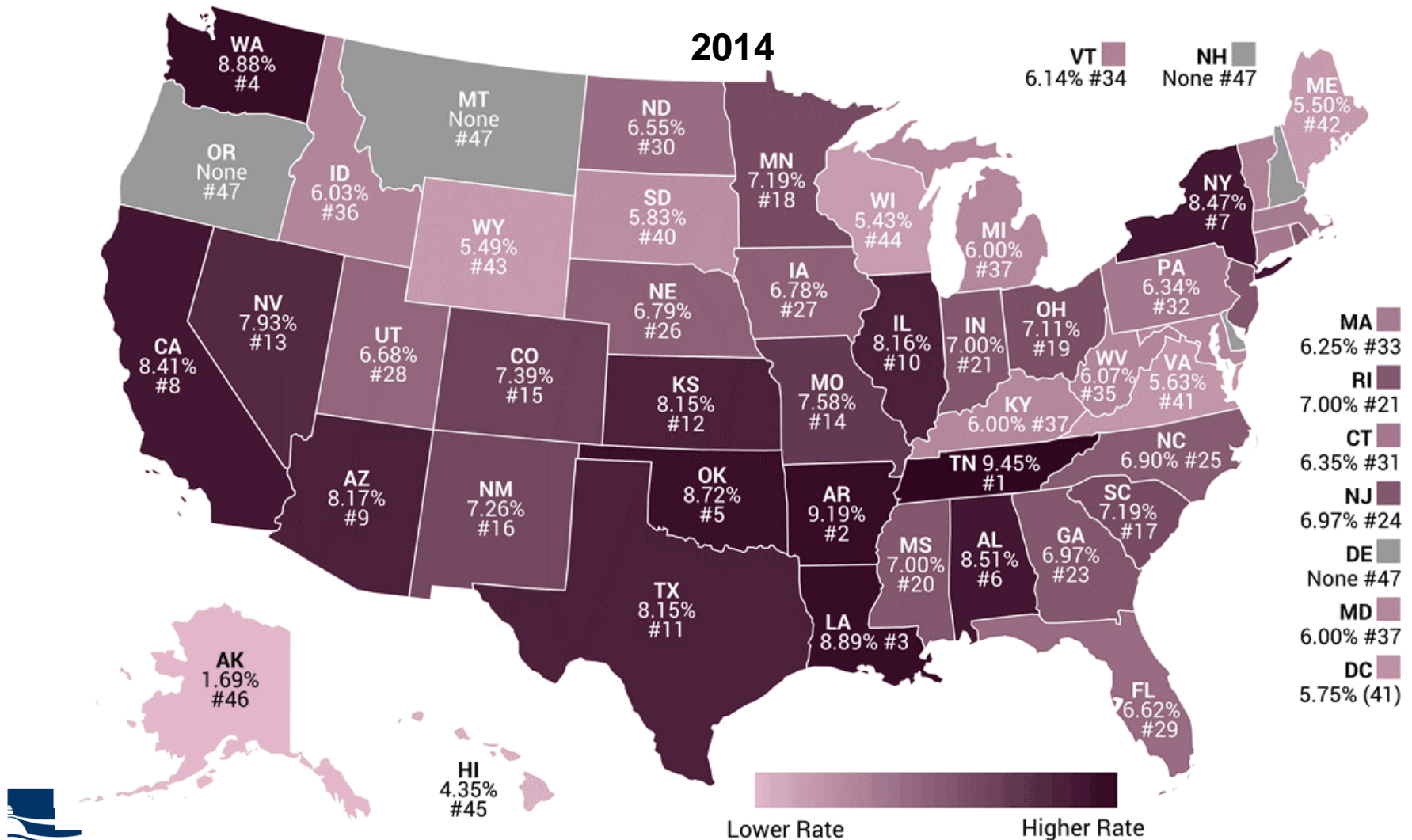
# State and Local General Sales Taxes as a Percent of Personal Income



# Combined State and Average Local Sales Tax Rates

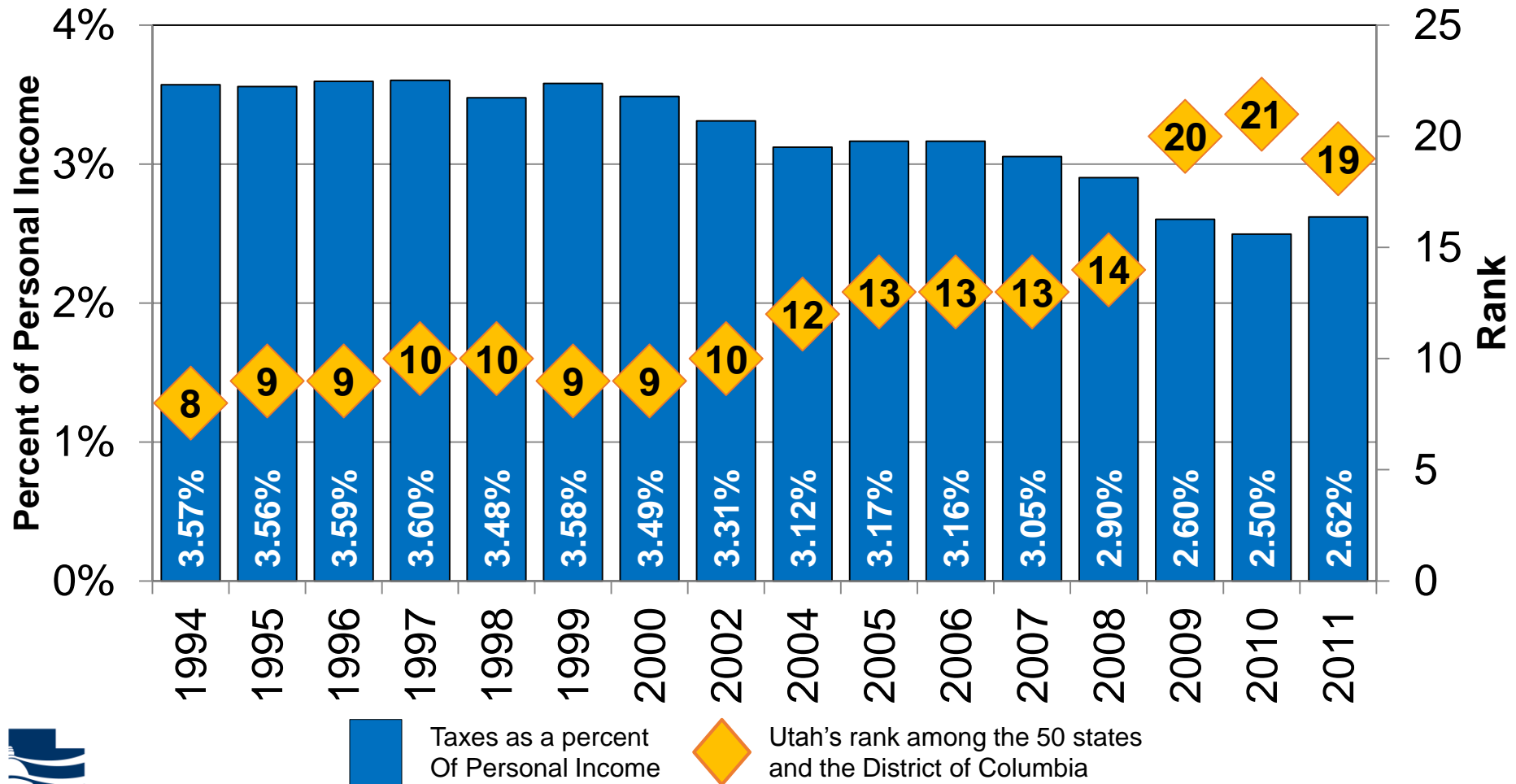


# Combined State and Average Local Sales Tax Rates



# State and Local General Sales Taxes as a Percent of Personal Income

Utah: FY 1994 to FY 2011





# How Utah Compares

Utah Taxes and Own Source Revenue as a Percent of Personal Income: **FY 2011**

